The Future of American Power

How America Can Survive the Rise of the Rest

Fareed Zakaria

On June 22, 1897, about 400 million people around the world—one-fourth of humanity—got the day off. It was the 60th anniversary of Queen Victoria's ascension to the British throne. The Diamond Jubilee stretched over five days on land and sea, but its high point was the parade and thanksgiving service on June 22. The 11 premiers of Britain's self-governing colonies were in attendance, along with princes, dukes, ambassadors, and envoys from the rest of the world. A military procession of 50,000 soldiers included hussars from Canada, cavalrymen from New South Wales, carabineers from Naples, camel troops from Bikaner, and Gurkhas from Nepal. It was, as one historian wrote, "a Roman moment."

In London, eight-year-old Arnold Toynbee was perched on his uncle's shoulders, eagerly watching the parade. Toynbee, who grew up to become the most famous historian of his age, recalled that, watching the grandeur of the day, it felt as if the sun were "standing still in the midst of Heaven." "I remember the atmosphere," he wrote. "It was: 'Well, here we are on top of the world, and we have arrived at this peak to stay there forever. There is, of course, a thing called history, but history is something unpleasant that happens to other people. We are comfortably outside all of that I am sure.'"

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But of course, history did happen to Britain. The question for the superpower of the current age is, Will history happen to the United States as well? Is it already happening? No analogy is exact, but the British Empire in its heyday is the closest any nation in the modern age has come to the United States' position today. In considering whether and how the forces of change will affect the United States, it is worth paying close attention to the experience of Britain.

There are many contemporary echoes. The United States' recent military interventions in Somalia, Afghanistan, and Iraq all have parallels in British military interventions decades ago. The basic strategic dilemma of being the only truly global player on the world stage is strikingly similar. But there are also fundamental differences between Britain then and the United States now. For Britain, as it tried to maintain its superpower status, the largest challenge was economic rather than political. For the United States, it is the other way around.

Through shrewd strategic choices and some sophisticated diplomacy, Britain was able to maintain and even extend its influence for decades. In the end, however, it could not alter the fact that its power position—its economic and technological dynamism—was fast eroding. Britain declined gracefully—but inexorably. The United States today faces a problem that is quite different. The U.S. economy (despite its current crisis) remains fundamentally vigorous when compared with others. American society is vibrant. It is the United States' political system that is dysfunctional, unable to make the relatively simple reforms that would place the country on extremely solid footing for the future. Washington seems largely unaware of the new world rising around it—and shows few signs of being able to reorient U.S. policy for this new age.

BRITANNIA'S DEMISE

TODAY, IT is difficult even to imagine the magnitude of the British Empire. At its height, it covered about a quarter of the earth's land surface and included a quarter of its population. London's network of colonies, territories, bases, and ports spanned the globe. The empire was protected by the Royal Navy, the greatest seafaring force in history, and linked by 170,000 nautical miles of ocean cables and 662,000 miles

of aerial and buried cables. British ships had facilitated the development of the first global communications network, via the telegraph. Railways and canals (the Suez Canal most importantly) deepened the connectivity of the system. Through all of this, the British Empire created the first truly global market.

Americans often talk about the appeal of their culture and ideas, but "soft power" really began with Britain. The historian Claudio Véliz points out that in the seventeenth century, the two imperial powers of the day, Britain and Spain, both tried to export their ideas and practices to their western colonies. Spain wanted the Counter-Reformation to take hold in the New World; Britain wanted religious pluralism and capitalism to flourish. As it turned out, British ideas proved more universal. In fact, Britain has arguably been the most successful exporter of its culture in human history. Before the American dream, there was an "English way of life"—one that was watched, admired, and copied throughout the world. And also thanks to the British Empire, English spread as a global language, spoken from the Caribbean to Cape Town to Calcutta.

Not all of this was recognized in June 1897, but much of it was. The British were hardly alone in making comparisons between their empire and Rome. Paris' *Le Figaro* declared that Rome itself had been "equaled, if not surpassed, by the Power which in Canada, Australia, India, in the China Seas, in Egypt, Central and Southern Africa, in the Atlantic and in the Mediterranean rules the peoples and governs their interests." The *Kreuz-Zeitung* in Berlin described the empire as "practically unassailable." Across the Atlantic, *The New York Times* gushed, "We are a part, and a great part, of the Greater Britain which seems so plainly destined to dominate this planet."

Britain's exalted position, however, was more fragile than it appeared. Just two years after the Diamond Jubilee, Britain entered the Boer War, a conflict that, for many scholars, marks the moment when British power began to decline. London was sure that it would win the fight with little trouble. After all, the British army had just won a similar battle against the dervishes in Sudan, despite being outnumbered by more than two to one. In the Battle of Omdurman, it inflicted 48,000 dervish casualties in just five hours while losing only 48 soldiers of its own. Many in Britain imagined an even easier victory against

the Boers. After all, as one member of Parliament put it, it was "the British Empire against 30,000 farmers."

The war was ostensibly fought for a virtuous reason: to defend the rights of the English-speaking people of the Boer republics, who were treated as second-class citizens by the ruling Boers. But it did not escape the attention of London that after the discovery of gold in the region in 1886, these republics had been producing a quarter of the world's gold supply. In any event, the Boers launched a preemptive strike, and war began in 1899.

Things went badly for Britain from the beginning. It had more men and better weapons and was fielding its best generals (including Lord Kitchener, the hero of Omdurman). But the Boers were passionate in defending themselves, knew the land, and adopted successful guerrilla tactics that relied on stealth and speed. The British army's enormous military superiority meant little on the ground, and its commanders resorted to brutal tactics—burning down villages, herding civilians into concentration camps (the world's first), sending in more and more troops. Eventually, Britain had 450,000 troops fighting a militia of 45,000.

The Boers could not hold back the British army forever, and in 1902 they surrendered. But in a larger sense, Britain lost the war. It had suffered 45,000 casualties, spent half a billion pounds, stretched its army to the breaking point, and discovered enormous incompetence and corruption in its war effort. Its brutal wartime tactics, moreover, gave it a black eye in the view of the rest of the world. At home, all of this created, or exposed, deep divisions over Britain's global role. Abroad, every other great power—France, Germany, the United States—opposed London's actions. "They were friendless," the historian Lawrence James has written of the British in 1902.

Fast-forward to today. Another superpower, militarily unbeatable, wins an easy victory in Afghanistan and then takes on what it is sure will be another simple battle, this one against Saddam Hussein's isolated regime in Iraq. The result: a quick initial military victory followed by a long, arduous struggle, filled with political and military blunders and met with intense international opposition. The analogy is obvious; the United States is Britain, the Iraq war is the Boer War—and, by extension, the United States' future looks bleak. And indeed, regardless

of the outcome in Iraq, the costs have been massive. The United States has been overextended and distracted, its army stressed, its image sullied. Rogue states such as Iran and Venezuela and great powers such as China and Russia are taking advantage of Washington's inattention and bad fortunes. The familiar theme of imperial decline is playing itself out one more time. History is happening again.

THE LONG GOODBYE

BUT WHATEVER the apparent similarities, the circumstances are not really the same. Britain was a strange superpower. Historians have written hundreds of books explaining how London could have adopted certain foreign policies to change its fortunes. If only it had avoided the Boer War, say some. If only it had stayed out of Africa, say others. The historian Niall Ferguson provocatively suggests that had Britain stayed out of World War I (and there might not have been a world war without British participation), it might have managed to preserve its great-power position. There is some truth to this line of reasoning (World War I did bankrupt Britain), but to put things properly in historical context, it is worth looking at this history from another angle. Britain's immense empire was the product of unique circumstances. The wonder is not that it declined but that its dominance lasted as long as it did. Understanding how Britain played its hand—one that got weaker over time—can help illuminate the United States' path forward.

Britain has been a rich country for centuries (and was a great power for most of that time), but it was an economic superpower for little more than a generation. Observers often make the mistake of dating its apogee by great imperial events such as the Diamond Jubilee. In fact, by 1897, Britain's best years were already behind it. Its true apogee was a generation earlier, from 1845 to 1870. At the time, it was producing more than 30 percent of global GDP. Its energy consumption was five times that of the United States and 155 times that of Russia. It accounted for one-fifth of the world's trade and two-fifths of its manufacturing trade. And all this was accomplished with just two percent of the world's population.

By the late 1870s, the United States had equaled Britain on most industrial measures, and by the early 1880s it had actually surpassed it, as Germany would about 15 years later. By World War I, the United

States' economy was twice the size of Britain's, and together France's and Russia's were larger as well. In 1860, Britain had produced 53 percent of the world's iron (then a sign of supreme industrial strength); by 1914, it was making less than 10 percent.

Of course, politically, London was still the capital of the world at the time of World War I, and its writ was unequaled and largely unchallenged across much of the globe. Britain had acquired an empire in a period before the onset of nationalism, and so there were few obstacles to creating and maintaining control in far-flung places. Its sea power was unrivaled, and it remained dominant in banking, shipping, insurance, and investment. London was still the center of global finance, and the pound still the reserve currency of the world. Even in 1914, Britain invested twice as much capital abroad as its closest competitor, France, and five times as much as the United States. The economic returns of these investments and other "invisible trades" in some ways masked Britain's decline.

Britain was undone as a global power not because of bad politics but because of bad economics.

In fact, the British economy was sliding. British growth rates had dropped below two percent in the decades leading up to World War I. The United States and Germany, meanwhile, were growing at around five percent. Having spearheaded the first Industrial Revolution, Britain was less adept at moving into the second. The goods it was producing represented the past rather than the future. In 1907, for example, it manufactured four times as many bicycles as the United States did, but the United States manufactured 12 times as many cars.

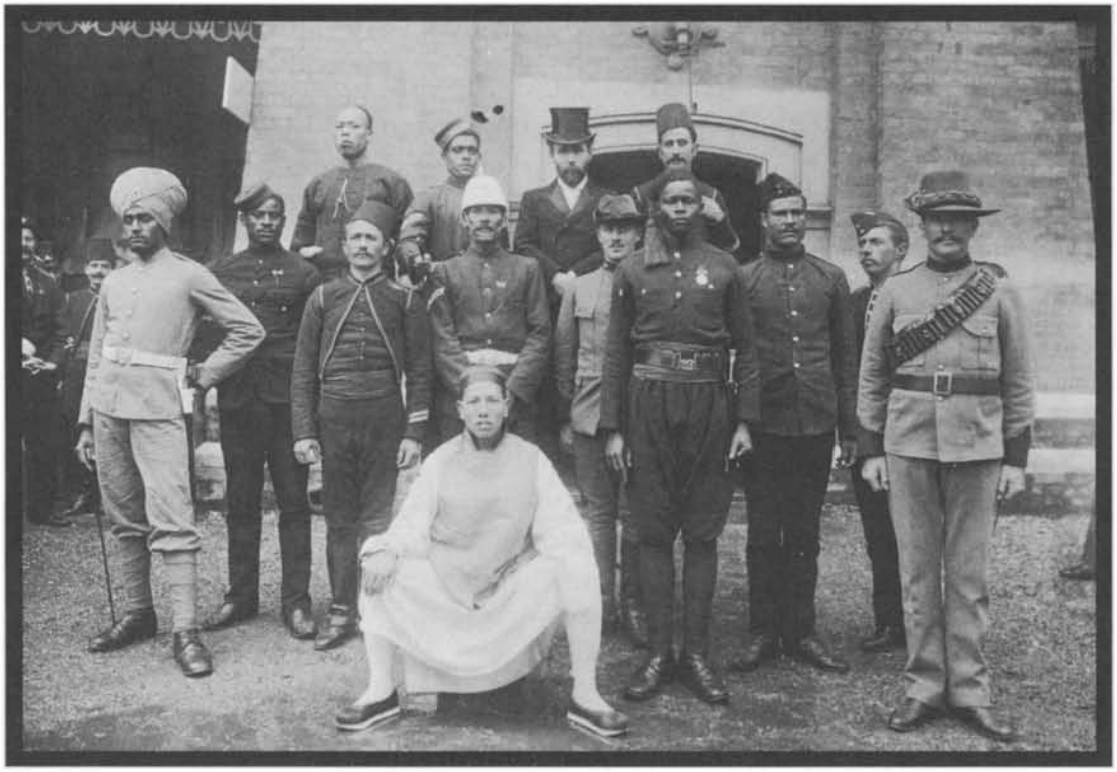
Scholars have debated the causes of Britain's decline since shortly after that decline began. Some have focused on geopolitics; others, on economic factors, such as low investment in new plants and equipment and bad labor relations. British capitalism had remained old-fashioned and rigid, its industries set up as small cottage-scale enterprises with skilled craftsmen rather than the mass factories that sprang up in Germany and the United States. There were signs of broader cultural problems as well. A wealthier Britain was losing its focus on practical education, and British society retained a feudal cast, given to it by its landowning aristocracy.

But it may be that none of these failings was actually crucial. The historian Paul Kennedy has explained the highly unusual circumstances that produced Britain's dominance in the nineteenth century. Given its portfolio of power—geography, population, resources—Britain could reasonably have expected to account for three to four percent of global GDP, but its share rose to around ten times that figure. As those unusual circumstances abated—as other Western countries caught up with industrialization, as Germany united, as the United States resolved its North-South divide—Britain was bound to decline. The British statesman Leo Amery saw this clearly in 1905. "How can these little islands hold their own in the long run against such great and rich empires as the United States and Germany are rapidly becoming?" he asked. "How can we with forty millions of people compete with states nearly double our size?" It is a question that many Americans are now asking in the face of China's rise.

Britain managed to maintain its position as the leading world power for decades after it lost its economic dominance thanks to a combination of shrewd strategy and good diplomacy. Early on, as it saw the balance of power shifting, London made one critical decision that extended its influence by decades: it chose to accommodate itself to the rise of the United States rather than to contest it. In the decades after 1880, on issue after issue London gave in to a growing and assertive Washington.

It was not easy for Britain to cede control to its former colony, a country with which it had fought two wars and in whose recent civil war it had sympathized with the secessionists. But it was a strategic masterstroke. Had Britain tried to resist the rise of the United States, on top of all its other commitments, it would have been bled dry. For all of London's mistakes over the next half century, its strategy toward Washington—one followed by every British government since the 1890s—meant that Britain could focus its attention on other critical fronts. It remained, for example, the master of the seas, controlling its lanes and pathways with "five keys" that were said to lock up the world—Singapore, the Cape of Good Hope, Alexandria, Gibraltar, and Dover.

Britain maintained control of its empire and retained worldwide influence with relatively little opposition for many decades. (In the settlement after World War I, it took over 1.8 million square miles of



CORBIS

Of all stripes: soldiers of the British Empire in England for the Diamond Jubilee, 1897

territory and 13 million new subjects, mostly in the Middle East.) Still, the gap between its political role and its economic capacity was growing. By the twentieth century, the empire was an enormous drain on the British treasury. And this was no time for expensive habits. The British economy was reeling. World War I cost over $40 billion, and Britain, once the world's leading creditor, had debts amounting to 136 percent of domestic output afterward. By the mid-1920s, interest payments alone sucked up half the government's budget. Meanwhile, by 1936, Germany's defense spending was three times as high as Britain's. The same year that Italy invaded Ethiopia, Mussolini also placed 50,000 troops in Libya—ten times the number of British troops guarding the Suez Canal. It was these circumstances—coupled with the memory of a recent world war that had killed more than 700,000 young Britons—that led the British governments of the 1930s, facing the forces of fascism, to prefer wishful thinking and appeasement to confrontation.

World War II was the final nail in the coffin of British economic power: in 1945, the United States' GDP was ten times that of Britain. Even then, Britain remained remarkably influential, at least partly because of the almost superhuman energy and ambition of Winston Churchill. Given that the United States was paying most of the Allies' economic costs, and Russia was bearing most of the casualties, it took extraordinary will for Britain to remain one of the three major powers deciding the fate of the postwar world. (The photographs of Franklin Roosevelt, Joseph Stalin, and Churchill at the Yalta Conference in February 1945 are somewhat misleading: there was no "big three" at Yalta; there was a "big two" plus one brilliant political entrepreneur who was able to keep himself and his country in the game.)

But even this came at a cost. In return for its loans to London, the United States took over dozens of British bases in Canada, the Caribbean, the Indian Ocean, and the Pacific. "The British Empire is handed over to the American pawnbroker—our only hope," said one member of Parliament. The economist John Maynard Keynes described the Lend-Lease Act as an attempt to "pick out the eyes of the British Empire." Less emotional observers saw that the transition was inevitable. Toynbee, by then a distinguished historian, consoled Britons by noting that the United States' "hand will be a great deal lighter than Russia's, Germany's, or Japan's, and I suppose these are the alternatives."

THE ENTREPRENEURIAL EMPIRE

BRITAIN WAS undone as a global power not because of bad politics but because of bad economics. Indeed, the impressive skill with which London played its weakening hand despite a 70-year economic decline offers important lessons for the United States. First, however, it is essential to note that the central feature of Britain's decline—irreversible economic deterioration—does not really apply to the United States today. Britain's unrivaled economic status lasted for a few decades; the United States' has lasted more than 120 years. The U.S. economy has been the world's largest since the middle of the 1880s, and it remains so today. In fact, the United States has held a surprisingly constant share of global GDP ever since. With the brief exception of the

late 1940s and 1950s, when the rest of the industrialized world had been destroyed and its share rose to 50 percent, the United States has accounted for roughly a quarter of world output for over a century (32 percent in 1913, 26 percent in 1960, 22 percent in 1980, 27 percent in 2000, and 26 percent in 2007). It is likely to slip, but not significantly, in the next two decades. Most estimates suggest that in 2025 the United States' economy will still be twice the size of China's in terms of nominal GDP.

This difference between the United States and Britain is reflected in the burden of their military budgets. Britannia ruled the seas but never the land. The British army was sufficiently small that Otto von Bismarck once quipped that were the British ever to invade Germany, he would simply have the local police force arrest them. Meanwhile, London's advantage over the seas—it had more tonnage than the next two navies put together—came at ruinous cost. The U.S. military, in contrast, dominates at every level—land, sea, air, space—and spends more than the next 14 countries combined, accounting for almost 50 percent of global defense spending. The United States also spends more on defense research and development than the rest of the world put together. And crucially, it does all this without breaking the bank. U.S. defense expenditure as a percent of GDP is now 4.1 percent, lower than it was for most of the Cold War (under Dwight Eisenhower, it rose to ten percent). As U.S. GDP has grown larger and larger, expenditures that would have been backbreaking have become affordable. The Iraq war may be a tragedy or a noble endeavor, but either way, it will not bankrupt the United States. The price tag for Iraq and Afghanistan together—$125 billion a year—represents less than one percent of GDP. The war in Vietnam, by comparison, cost the equivalent of 1.6 percent of U.S. GDP in 1970, a large difference. (Neither of these percentages includes second- or third-order costs of war, which allows for a fair comparison even if one disputes the exact figures.)

U.S. military power is not the cause of its strength but the consequence. The fuel is the United States' economic and technological base, which remains extremely strong. The United States does face larger, deeper, and broader challenges than it has ever faced in its history, and it will undoubtedly lose some share of global GDP. But the process will look nothing like Britain's slide in the twentieth century, when

the country lost the lead in innovation, energy, and entrepreneurship. The United States will remain a vital, vibrant economy, at the forefront of the next revolutions in science, technology, and industry.

In trying to understand how the United States will fare in the new world, the first thing to do is simply look around: the future is already here. Over the last 20 years, globalization has been gaining breadth and depth. More countries are making goods, communications technology has been leveling the playing field, capital has been free to move across the world—and the United States has benefited massively from these trends. Its economy has received hundreds of billions of dollars in investment, and its companies have entered new countries and industries with great success. Despite two decades of a very expensive dollar, U.S. exports have held ground, and the World Economic Forum currently ranks the United States as the world's most competitive economy. GDP growth, the bottom line, has averaged just over three percent in the United States for 25 years, significantly higher than in Europe or Japan. Productivity growth, the elixir of modern economics, has been over 2.5 percent for a decade now, a full percentage point higher than the European average. This superior growth trajectory might be petering out, and perhaps U.S. growth will be more typical for an advanced industrialized country for the next few years. But the general point—that the United States is a highly dynamic economy at the cutting edge, despite its enormous size—holds.

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Consider the industries of the future. Nanotechnology (applied science dealing with the control of matter at the atomic or molecular scale) is likely to lead to fundamental breakthroughs over the next 50 years, and the United States dominates the field. It has more dedicated "nanocenters" than the next three nations (Germany, Britain, and China) combined and has issued more patents for nanotechnology than the rest of the world combined, highlighting its unusual strength in turning abstract theory into practical products. Biotechnology (a broad category that describes the use of biological systems to create medical, agricultural, and industrial products) is also dominated by

the United States. Biotech revenues in the United States approached $50 billion in 2005, five times as large as the amount in Europe and representing 76 percent of global biotech revenues.

Manufacturing has, of course, been leaving the country, shifting to the developing world and turning the United States into a service economy. This scares many Americans, who wonder what their country will make if everything is "made in China." But Asian manufacturing must be viewed in the context of a global economy. *The Atlantic Monthly*'s James Fallows spent a year in China watching its manufacturing juggernaut up close, and he provides a persuasive explanation of how outsourcing has strengthened U.S. competitiveness. What it comes down to is that the real money is in designing and distributing products—which the United States dominates—rather than manufacturing them. A vivid example of this is the iPod: it is manufactured mostly outside the United States, but most of the added value is captured by Apple, in California.

Many experts and scholars, and even a few politicians, worry about certain statistics that bode ill for the United States. The U.S. savings rate is zero; the current account deficit, the trade deficit, and the budget deficit are high; the median income is flat; and commitments for entitlements are unsustainable. These are all valid concerns that will have to be addressed. But it is important to keep in mind that many frequently cited statistics offer only an approximate or an antiquated measure of an economy. Many of them were developed in the late nineteenth century to describe industrial economies with limited cross-border activity, not modern economies in today's interconnected global market.

For the last two decades, for example, the United States has had unemployment rates well below levels economists thought possible without driving up inflation. Or consider that the United States' current account deficit—which in 2007 reached $800 billion, or seven percent of GDP—was supposed to be unsustainable at four percent of GDP. The current account deficit is at a dangerous level, but its magnitude can be explained in part by the fact that there is a worldwide surplus of savings and that the United States remains an unusually stable and attractive place to invest. The decrease in personal savings, as the Harvard economist Richard Cooper has noted, has been largely offset by an increase in corporate savings. The U.S. investment picture also looks

much rosier if education and research-and-development spending are considered along with spending on physical capital and housing.

The United States has serious problems. By all calculations, Medicare threatens to blow up the federal budget. The swing from surpluses to deficits between 2000 and 2008 has serious implications. Growing inequality (the result of the knowledge economy, technology, and globalization) has become a signature feature of the new era. Perhaps most worrying, Americans are borrowing 80 percent of the world's surplus savings and using it for consumption: they are selling off their assets to foreigners to buy a couple more lattes a day. But such problems must be considered in the context of an overall economy that remains powerful and dynamic.

EDUCATION NATION

"AH, YES," say those who are more worried, "but you are looking at a snapshot of today. The United States' advantages are rapidly eroding as the country loses its scientific and technological base and suffers from inexorable cultural decay." A country that once adhered to a Puritan ethic of delayed gratification, the argument goes, has become one that revels in instant pleasures; Americans are losing interest in the basics—math, manufacturing, hard work, savings—and becoming a society that specializes in consumption and leisure.

No statistic seems to capture this anxiety better than those showing the decline of engineering in the United States. In 2005, the National Academy of Sciences released a report warning that the United States could soon lose its privileged position as the world's science leader. The report said that in 2004 China graduated 600,000 engineers, India 350,000, and the United States 70,000—numbers that were repeated in countless articles, books, and speeches. And indeed, these figures do seem to be cause for despair. What hope does the United States have if for every one qualified American engineer there are more than a dozen Chinese and Indian ones? For the cost of one chemist or engineer in the United States, the report pointed out, a company could hire five Chinese chemists or 11 Indian engineers.

The numbers, however, are wrong. Several academics and journalists investigated the matter and quickly realized that the Asian totals

included graduates of two- or three-year programs training students in simple technical tasks. The National Science Foundation, which tracks these statistics in the United States and other nations, puts the Chinese number at about 200,000 engineering degrees per year, and the Rochester Institute of Technology's Ron Hira puts the number of Indian engineering graduates at about 125,000 a year. This means that the United States actually trains more engineers per capita than either China or India does.

And the numbers do not address the issue of quality. The best and brightest in China and India—those who, for example, excel at India's famous engineering academies, the Indian Institutes of Technology (5,000 out of 300,000 applicants make it past the entrance exams)—would do well in any educational system. But once you get beyond such elite institutions—which graduate under 10,000 students a year—the quality of higher education in China and India remains extremely poor, which is why so many students leave those countries to get trained abroad. In 2005, the McKinsey Global Institute did a study of "the emerging global labor market" and found that 28 low-wage countries had approximately 33 million young professionals at their disposal. But, the study noted, "only a fraction of potential job candidates could successfully work at a foreign company," largely because of inadequate education.

The United States' advantages today are in large part a product of immigration.

Indeed, higher education is the United States' best industry. In no other field is the United States' advantage so overwhelming. A 2006 report from the London-based Center for European Reform points out that the United States invests 2.6 percent of its GDP in higher education, compared with 1.2 percent in Europe and 1.1 percent in Japan. Depending on which study you look at, the United States, with five percent of the world's population, has either seven or eight of the world's top ten universities and either 48 percent or 68 percent of the top 50. The situation in the sciences is particularly striking. In India, universities graduate between 35 and 50 Ph.D.'s in computer science each year; in the United States, the figure is 1,000. A list of where the world's 1,000 best computer scientists were educated shows

that the top ten schools are all American. The United States also remains by far the most attractive destination for students, taking in 30 percent of the total number of foreign students globally, and its collaborations between business and educational institutions are unmatched anywhere in the world. All these advantages will not be erased easily, because the structure of European and Japanese universities—mostly state-run bureaucracies—is unlikely to change. And although China and India are opening new institutions, it is not that easy to create a world-class university out of whole cloth in a few decades.

Few people believe that U.S. primary and secondary schools deserve similar praise. The school system, the line goes, is in crisis, with its students performing particularly badly in science and math, year after year, in international rankings. But the statistics here, although not wrong, reveal something slightly different. The real problem is one not of excellence but of access. The Trends in International Mathematics and Science Study (TIMSS), the standard for comparing educational programs across nations, puts the United States squarely in the middle of the pack. The media reported the news with a predictable penchant for direness: "Economic Time Bomb: U.S. Teens Are Among Worst at Math," declared *The Wall Street Journal*.

But the aggregate scores hide deep regional, racial, and socioeconomic variation. Poor and minority students score well below the U.S. average, while, as one study noted, "students in affluent suburban U.S. school districts score nearly as well as students in Singapore, the runaway leader on TIMSS math scores." The difference between the average science scores in poor and wealthy school districts within the United States, for instance, is four to five times as high as the difference between the U.S. and the Singaporean national average. In other words, the problem with U.S. education is a problem of inequality. This will, over time, translate into a competitiveness problem, because if the United States cannot educate and train a third of the working population to compete in a knowledge economy, this will drag down the country. But it does know what works.

The U.S. system may be too lax when it comes to rigor and memorization, but it is very good at developing the critical faculties of the mind. It is surely this quality that goes some way in explaining why the United States produces so many entrepreneurs, inventors, and risk

takers. Tharman Shanmugaratnam, until recently Singapore's minister of education, explains the difference between his country's system and that of the United States: "We both have meritocracies," Shanmugaratnam says. "Yours is a talent meritocracy, ours is an exam meritocracy. We know how to train people to take exams. You know how to use people's talents to the fullest. Both are important, but there are some parts of the intellect that we are not able to test well—like creativity, curiosity, a sense of adventure, ambition. Most of all, America has a culture of learning that challenges conventional wisdom, even if it means challenging authority." This is one reason that Singaporean officials recently visited U.S. schools to learn how to create a system that nurtures and rewards ingenuity, quick thinking, and problem solving. "Just by watching, you can see students are more engaged, instead of being spoon-fed all day," one Singaporean visitor told *The Washington Post*. While the United States marvels at Asia's test-taking skills, Asian governments come to the United States to figure out how to get their children to think.

THE GRAY ZONE

THE UNITED STATES' advantages might seem obvious when compared with conditions in Asia, which is still a continent of mostly developing countries. Against Europe, the margin is slimmer than many Americans believe. The eurozone has been growing at an impressive clip, about the same pace per capita as the United States since 2000. It takes in half the world's foreign investment, boasts strong labor productivity, and posted a $30 billion trade surplus in the first ten months of 2007. In the World Economic Forum's Global Competitiveness Index, European countries occupy seven of the top ten slots. Europe has its problems—high unemployment, rigid labor markets—but it also has advantages, including more efficient and fiscally sustainable health-care and pension systems. All in all, Europe presents the most significant short-term challenge to the United States in the economic realm.

But Europe has one crucial disadvantage. Or, to put it more accurately, the United States has one crucial advantage over Europe and most of the developed world. The United States is demographically vibrant. Nicholas Eberstadt, a scholar at the American Enterprise Institute,

estimates that the U.S. population will increase by 65 million by 2030, whereas Europe's population will remain "virtually stagnant." Europe, Eberstadt notes, "will by that time have more than twice as many seniors older than 65 than children under 15, with drastic implications for future aging. (Fewer children now means fewer workers later.) In the United States, by contrast, children will continue to outnumber the elderly. The United Nations Population Division estimates that the ratio of working-age people to senior citizens in western Europe will drop from 3.8:1 today to just 2.4:1 in 2030. In the U.S., the figure will fall from 5.4:1 to 3.1:1."

The only real way to avert this demographic decline is for Europe to take in more immigrants. Native Europeans actually stopped replacing themselves as early as 2007, and so even maintaining the current population will require modest immigration. Growth will require much more. But European societies do not seem able to take in and assimilate people from strange and unfamiliar cultures, especially from rural and backward regions in the world of Islam. The question of who is at fault here—the immigrant or the society—is irrelevant. The reality is that Europe is moving toward taking in fewer immigrants at a time when its economic future rides on its ability to take in many more. The United States, on the other hand, is creating the first universal nation, made up of all colors, races, and creeds, living and working together in considerable harmony. Consider the current presidential election, in which the contestants have included a black man, a woman, a Mormon, a Hispanic, and an Italian American.

Surprisingly, many Asian countries (with India an exception) are in demographic situations similar to or even worse than Europe's. The fertility rates in China, Japan, South Korea, and Taiwan are well below the replacement level of 2.1 births per woman, and estimates indicate that the major East Asian nations will face a sizable reduction in their working-age populations over the next half century. The working-age population in Japan has already peaked; by 2010, Japan will have three million fewer workers than it did in 2005. The worker populations in China and South Korea are also likely to peak within the next decade. Goldman Sachs predicts that China's median age will rise from 33 in 2005 to 45 in 2050, a remarkable graying of the population. And Asian countries have as much trouble with immigrants as European countries do.

Japan faces a large prospective worker shortage because it can neither take in enough immigrants nor allow its women to fully participate in the labor force.

The effects of an aging population are considerable. First, there is the pension burden—fewer workers supporting more gray-haired elders. Second, as the economist Benjamin Jones has shown, most innovative inventors—and the overwhelming majority of Nobel laureates—do their most important work between the ages of 30 and 44. A smaller working-age population, in other words, means fewer technological, scientific, and managerial advances. Third, as workers age, they go from being net savers to being net spenders, with dire ramifications for national savings and investment rates. For advanced industrialized countries, bad demographics are a killer disease.

The United States' potential advantages today are in large part a product of immigration. Without immigration, the United States' GDP growth over the last quarter century would have been the same as Europeans. Native-born white Americans have the same low fertility rates as Europeans. Foreign students and immigrants account for 50 percent of the science researchers in the country and in 2006 received 40 percent of the doctorates in science and engineering and 65 percent of the doctorates in computer science. By 2010, foreign students will get more than 50 percent of all the Ph.D.'s awarded in every subject in the United States. In the sciences, that figure will be closer to 75 percent. Half of all Silicon Valley start-ups have one founder who is an immigrant or a first-generation American. In short, the United States' potential new burst of productivity, its edge in nanotechnology and biotechnology, its ability to invent the future—all rest on its immigration policies. If the United States can keep the people it educates in the country, the innovation will happen there. If they go back home, the innovation will travel with them.

Immigration also gives the United States a quality rare for a rich country—dynamism. The country has found a way to keep itself constantly revitalized by streams of people who are eager to make a new life in a new world. Some Americans have always worried about such immigrants—whether from Ireland or Italy, China or Mexico. But these immigrants have gone on to become the backbone of the American working class, and their children or grandchildren have entered

CORBIS

Young Americans: immigrants after taking the oath of citizenship, Los Angeles, California, 2007

the American mainstream. The United States has been able to tap this energy, manage diversity, assimilate newcomers, and move ahead economically. Ultimately, this is what sets the country apart from the experience of Britain and all other past great economic powers that have grown fat and lazy and slipped behind as they faced the rise of leaner, hungrier nations.

LEARNING FROM THE WORLD

In 2005, New York City got a wake-up call. Twenty-four of the world's 25 largest initial public offerings that year were held in countries other than the United States. This was stunning. The United States' capital markets have long been the biggest in the world. They financed the turnaround in manufacturing in the 1980s and the technology revolution of the 1990s, and they are today financing the ongoing advances in bioscience. It is the fluidity of these markets that has kept American business nimble. If the United States is losing this distinctive advantage, it is very bad news.

Much of the discussion around the problem has focused on the United States' regulation, particularly post-Enron laws such as Sarbanes-Oxley, and the constant threat of litigation that hovers over businesses in the United States. These obstacles are there, but they do not really get at what has shifted business abroad. The United States is conducting business as usual. But others are joining in the game. What is really happening here, as in other areas, is simple: the rise of the rest. The United States' sum total of stocks, bonds, deposits, loans, and other financial instruments—its financial stock, in other words—still exceeds that of any other region, but other regions are seeing their financial stock grow much more quickly. This is especially true of the rising countries of Asia, but even the eurozone is outpacing the United States. Europe's total banking and trading revenues, $98 billion in 2005, have nearly pulled equal to the United States' revenues. And when it comes to new derivatives based on underlying financial instruments such as stocks or interest-rate payments, which are increasingly important for hedge funds, banks, and insurers, London is the dominant player already. This is all part of a broader trend. Countries and companies now have options that they never had before.

In this and other regards, the United States is not doing worse than usual. It functions as it always has—perhaps subconsciously assuming that it is still leagues ahead of the pack. U.S. legislators rarely think about the rest of the world when writing laws, regulations, and policies. U.S. officials rarely refer to global standards. After all, for so long the United States was the global standard, and when it chose to do something different, it was important enough that the rest of the world would cater to its exceptionality. The United States is the only country in the world other than Liberia and Myanmar that is not on the metric system. Other than Somalia, it is alone in not ratifying the Convention on the Rights of the Child. In business, the United States did not need to benchmark. It was the one teaching the world how to be capitalist. But now everyone is playing the United States' game, and playing to win.

For most of the last 30 years, the United States had the lowest corporate tax rates of the major industrialized countries. Today, it has the second highest. U.S. rates have not gone up; others have come down. Germany, for example, long a staunch believer in its high-taxation

system, has cut its rates in response to moves by countries to its east, such as Austria and Slovakia. This kind of competition among industrialized countries is now widespread. It is not a race to the bottom—Scandinavian countries have high taxes, good services, and strong growth—but a quest for growth. U.S. regulations used to be more flexible and market-friendly than all others. That is no longer true. London's financial system was overhauled in 2001, with a single entity replacing a confusing mishmash of regulators, which is one reason that London's financial sector now beats out New York's on some measures. The entire British government works aggressively to make London a global hub. Regulators from Warsaw to Shanghai to Mumbai are moving every day to make their systems more attractive to investors and manufacturers. Washington, by contrast, spends its time and energy thinking of ways to tax New York, so that it can send its revenues to the rest of the country.

Now everyone is playing the United States' game, and playing to win.

Being on top for so long has its downsides. The U.S. market has been so large that Americans have assumed that the rest of the world would take the trouble to understand it and them. They have not had to reciprocate by learning foreign languages, cultures, or markets. Now, that could leave the United States at a competitive disadvantage. Take the spread of English worldwide as a metaphor. Americans have delighted in this process because it makes it so much easier for them to travel and do business abroad. But it also gives the locals an understanding of and access to two markets and cultures. They can speak English but also Mandarin or Hindi or Portuguese. They can penetrate the U.S. market but also the internal Chinese, Indian, or Brazilian one. Americans, by contrast, have never developed the ability to move into other people's worlds.

The United States is used to being the leading economy and society. It has not noticed that most of the rest of the industrialized world—and a good part of the nonindustrialized world as well—has better cell-phone service than the United States. Computer connectivity is faster and cheaper across the rest of the industrialized world, from Canada to France to Japan, and the United States now stands 16th in

the world in broadband penetration per capita. Americans are constantly told by their politicians that the only thing they have to learn from other countries' health-care systems is to be thankful for their own. Americans rarely look around and notice other options and alternatives, let alone adopt them.

Learning from the rest is no longer a matter of morality or politics. Increasingly, it is about competitiveness. Consider the automobile industry. For more than a century after 1894, most of the cars manufactured in North America were made in Michigan. Since 2004, Michigan has been replaced by Ontario, Canada. The reason is simple: health care. In the United States, car manufacturers have to pay $6,500 in medical and insurance costs for every worker. If they move a plant to Canada, which has a government-run health-care system, the cost to them is around $800 per worker. This is not necessarily an advertisement for the Canadian health-care system, but it does make clear that the costs of the U.S. health-care system have risen to a point where there is a significant competitive disadvantage to hiring American workers. Jobs are going not to low-wage countries but to places where well-trained and educated workers can be found: it is smart benefits, not low wages, that employers are looking for.

For decades, American workers, whether in car companies, steel plants, or banks, had one enormous advantage over all other workers: privileged access to American capital. They could use that access to buy technology and training that no one else had—and thus produce products that no one else could, and at competitive prices. That special access is also gone. The world is swimming in capital, and suddenly American workers have to ask themselves, What can we do better than others? It is a dilemma not just for workers but for companies as well. When American companies went abroad, they used to bring with them capital and know-how. But when they go abroad now, they discover that the natives already have money and already know how.

There really is not a Third World anymore. So what do American companies bring to Brazil or India? What is the United States' competitive advantage? This is a question few American businesspeople thought they would ever have to answer. The answer lies in something the economist Martin Wolf noted. Economists used to discuss two basic concepts, capital and labor. But these are now commodities,

widely available to everyone. What distinguishes economies today are ideas and energy. A country can prosper if it is a source of ideas or energy for the world.

DO-NOTHING POLITICS

THE UNITED STATES has been and can continue to be the world's most important source of new ideas, big and small, technical and creative, economic and political. (If it were truly innovative, it could generate new ideas to produce new kinds of energy.) But to do that, it has to make some significant changes. The United States has a history of worrying that it is losing its edge. Today's is at least the fourth wave of such concern since World War II. The first was in the late 1950s, a result of the Soviet Union's launching of the Sputnik satellite. The second was in the early 1970s, when high oil prices and slow growth convinced Americans that Western Europe and Saudi Arabia were the powers of the future. The third one arrived in the mid-1980s, when most experts believed that Japan would be the technologically and economically dominant superpower of the future. The concern in each of these cases was well founded, the projections intelligent. But none of the feared scenarios came to pass. The reason is that the U.S. system proved to be flexible, resourceful, and resilient, able to correct its mistakes and shift its attention. A focus on U.S. economic decline ended up preventing it.

The problem today is that the U.S. political system seems to have lost its ability to fix its ailments. The economic problems in the United States today are real, but by and large they are not the product of deep inefficiencies within the U.S. economy, nor are they reflections of cultural decay. They are the consequences of specific government policies. Different policies could quickly and relatively easily move the United States onto a far more stable footing. A set of sensible reforms could be enacted tomorrow to trim wasteful spending and subsidies, increase savings, expand training in science and technology, secure pensions, create a workable immigration process, and achieve significant efficiencies in the use of energy. Policy experts do not have wide disagreements on most of these issues, and none of the proposed measures would require sacrifices reminiscent

of wartime hardship, only modest adjustments of existing arrangements. And yet, because of politics, they appear impossible. The U.S. political system has lost the ability to accept some pain now for great gain later on.

As it enters the twenty-first century, the United States is not fundamentally a weak economy or a decadent society. But it has developed a highly dysfunctional politics. What was an antiquated and overly rigid political system to begin with (now about 225 years old) has been captured by money, special interests, a sensationalist media, and ideological attack groups. The result is ceaseless, virulent debate about trivia—politics as theater—and very little substance, compromise, or action. A can-do country is now saddled with a do-nothing political process, designed for partisan battle rather than problem solving.

It is clever contrarianism to be in favor of sharp party politics and against worthy calls for bipartisanship. Some political scientists have long wished that U.S. political parties were more like European ones—ideologically pure and tightly disciplined. But Europe's parliamentary systems work well with partisan parties. In them, the executive branch always controls the legislative branch, and so the party in power can implement its agenda easily. The U.S. system, by contrast, is one of shared power, overlapping functions, and checks and balances. Progress requires broad coalitions between the two major parties and politicians who will cross the aisle. That is why James Madison distrusted political parties, lumping them together with all kinds of "factions" and considering them a grave danger to the young American republic.

Progress on any major problem—health care, Social Security, tax reform—will require compromise from both sides. It requires a longer-term perspective. And that has become politically deadly. Those who advocate sensible solutions and compromise legislation find themselves being marginalized by their party's leadership, losing funds from special-interest groups, and being constantly attacked by their "side" on television and radio. The system provides greater incentives to stand firm and go back and tell your team that you refused to bow to the enemy. It is great for fundraising, but it is terrible for governing.

THE RISE OF THE REST

THE REAL test for the United States is the opposite of that faced by Britain in 1900. Britain's economic power waned even as it managed to maintain immense political influence around the world. The U.S. economy and American society, in contrast, are capable of responding to the economic pressures and competition they face. They can adjust, adapt, and persevere. The test for the United States is political—and it rests not just with the United States at large but with Washington in particular. Can Washington adjust and adapt to a world in which others have moved up? Can it respond to shifts in economic requirements and political power?

The world has been one in which the United States was utterly unrivaled for two decades. It has been, in a broader sense, a U.S.-designed world since the end of World War II. But it is now in the midst of one of history's greatest periods of change.

There have been three tectonic power shifts over the last 500 years, fundamental changes in the distribution of power that have reshaped international life—its politics, economics, and culture. The first was the rise of the Western world, a process that began in the fifteenth century and accelerated dramatically in the late eighteenth century. It produced modernity as we know it: science and technology, commerce and capitalism, the agricultural and industrial revolutions. It also produced the prolonged political dominance of the nations of the West.

The second shift, which took place in the closing years of the nineteenth century, was the rise of the United States. Soon after it industrialized, the United States became the most powerful nation since imperial Rome, and the only one that was stronger than any likely combination of other nations. For most of the last century, the United States has dominated global economics, politics, science, culture, and ideas. For the last 20 years, that dominance has been unrivaled, a phenomenon unprecedented in history.

We are now living through the third great power shift of the modern era—the rise of the rest. Over the past few decades, countries all over the world have been experiencing rates of economic growth that were once unthinkable. Although they have had booms and busts, the overall trend has been vigorously forward. (This growth has been most

visible in Asia but is no longer confined to it, which is why to call this change "the rise of Asia" does not describe it accurately.)

The emerging international system is likely to be quite different from those that have preceded it. A hundred years ago, there was a multipolar order run by a collection of European governments, with constantly shifting alliances, rivalries, miscalculations, and wars. Then came the duopoly of the Cold War, more stable in some ways, but with the superpowers reacting and overreacting to each other's every move. Since 1991, we have lived under a U.S. imperium, a unique, unipolar world in which the open global economy has expanded and accelerated. This expansion is driving the next change in the nature of the international order. At the politico-military level, we remain in a single-superpower world. But polarity is not a binary phenomenon. The world will not stay unipolar for decades and then suddenly, one afternoon, become multipolar. On every dimension other than military power—industrial, financial, social, cultural—the distribution of power is shifting, moving away from U.S. dominance. That does not mean we are entering an anti-American world. But we are moving into a post-American world, one defined and directed from many places and by many people.

There are many specific policies and programs one could advocate to make the United States' economy and society more competitive. But beyond all these what is also needed is a broader change in strategy and attitude. The United States must come to recognize that it faces a choice—it can stabilize the emerging world order by bringing in the new rising nations, ceding some of its own power and perquisites, and accepting a world with a diversity of voices and viewpoints. Or it can watch as the rise of the rest produces greater nationalism, diffusion, and disintegration, which will slowly tear apart the world order that the United States has built over the last 60 years. The case for the former is obvious. The world is changing, but it is going the United States' way. The rest that are rising are embracing markets, democratic government (of some form or another), and greater openness and transparency. It might be a world in which the United States takes up less space, but it is one in which American ideas and ideals are overwhelmingly dominant. The United States has a window of opportunity to shape and master the changing global landscape, but only if it first recognizes that the post-American world is a reality—and embraces and celebrates that fact.